

# ATTACHMENT C



## City of Phoenix

### BUDGET AND RESEARCH DEPARTMENT REPORT

B.R.D. NUMBER

**2026-02**

SUBJECT

**General Fund Revenue Estimates**

DATE ISSUED

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This report provides General Fund (GF) revenue estimates to explain recommended revenue projections. The City is committed to providing a transparent and open budget process. Providing this information enhances the review and understanding of how revenue projections are developed to better facilitate discussions during the annual budget development process.

Careful examination of revenue estimates is required to ensure projections are as accurate as possible to maintain fiscal stability and long-term budget management. Predicting future revenue growth is challenging and requires consistent and diligent analysis based on sound forecasting principles and methods. Revenues are monitored closely, and an updated revenue report is prepared and distributed to the City Manager's Office, the City Council, and the community for review monthly. GF revenues are comprised of several categories, all of which are unique and require separate analysis. The primary revenue categories include local taxes and related fees, primary property taxes, state shared sales, income and vehicle license taxes, and user fees and non-tax revenues.

This report explains how GF revenues are projected, including the data sources, economic assumptions, and analytical methods used. It also provides historical revenue actuals and growth rates, revenue estimates for 2025-26 and 2026-27, and the factors staff considered when analyzing each major revenue category. Revenue estimates for Local Taxes reflect two major changes: the loss of residential rental tax revenue due to Senate Bill 1131, effective January 1, 2025, and the 0.5 percentage point increase in the City TPT and Use Tax rates, effective July 1, 2025. Revenue estimates for state-shared revenues reflect the negative impact of San Tan Valley's incorporation. In addition, State-shared income tax revenue estimates reflect the negative impact of Senate Bill 1828, which reduced the individual income tax rate to a 2.5% flat tax starting in tax year 2022. However, it does not reflect any impact on State-Shared Revenue resulting from the 2026-27 State budget, nor does it reflect any legislative changes that have recently been proposed or discussed during the current legislative session.

The table below summarizes the estimated GF revenues and the primary reason for the variance:

GF Revenue Category (millions)	2025-26 Estimate	2026-27 Estimate	Amount Change	Percent Change	Primary Reason for Difference
Local Taxes	\$820.0	\$834.4	\$14.4	1.8%	Assume moderate growth
Primary Property Tax	222.7	233.4	10.7	4.8%	Increase in assessed property valuation
State Shared Sales Tax	256.4	265.2	8.8	3.4%	Assume moderate growth
State Shared Income Tax	326.1	352.0	25.9	7.9%	Based on collections received two years prior
State Shared Vehicle License Tax	90.4	93.4	3.0	3.3%	Assume moderate growth
User Fees & Non-Taxes	208.0	213.0	5.0	2.4%	Assume moderate growth in ambulance billings, partially offset by lower interest earnings.
<b>Total</b>	<b>\$1,923.6</b>	<b>\$1,991.4</b>	<b>\$67.8</b>	<b>3.5%</b>	

## Revenue Projections & Trusted Sources

Projecting revenues involves complex analysis and continuous monitoring to identify variances and recommend adjustments so that expenditures do not exceed available resources and a balanced budget can be maintained. As part of the overall forecasting process, assumptions about the direction and strength of the national, state, and local economy are considered along with indicators such as population, job growth, and personal income. Information on program and service activity levels, rates, and fees that influence certain revenues is evaluated, and proposed legislation is monitored to determine potential impacts to revenue categories such as sales taxes, state shared revenues, emergency transportation service revenues, and property taxes.

In addition, information from City departments on user fees and non-tax revenue is requested and analyzed each year as part of the technical budget review process. Finally, trusted economic and financial sources are relied on to provide certain revenue projections and insight into the overall direction and strength of the economy and include experts from the State's Finance Advisory Committee (FAC), Joint Legislative Budget Committee (JLBC), Arizona State University, University of Arizona (UofA) Economic and Business Research Center (EBRC), Arizona Department of Revenue, National Blue Chip, Western Blue Chip, and the U.S. Bureau of Labor Statistics and Bureau of Economic Analysis.

The City is also a member of the Forecasting Project through the EBRC at the UofA. This project is a community-sponsored research program providing project members with economic forecasts for Arizona and the Phoenix-Mesa metro area. Budget & Research (B&R) staff attend quarterly meetings, participate in discussions with other local government and private enterprise members, and receive quarterly economic reports. In the fall of 2014, Budget and Research consulted with the UofA's Eller College of Management/EBRC to enhance the City's sales tax revenue forecasting process. Dr. George Hammond, EBRC Director, and Dr. Alberta Charney, Senior Research Economist, spent several months working with City staff to develop an enhanced econometric sales tax forecasting model for all categories of city and state sales taxes. In the summer of 2017, staff worked with EBRC to update the tax forecasting model. In March 2021, the EBRC revised the City's model again by including online sales tax. The EBRC leads the State of Arizona Forecasting Project, which provides in-depth economic forecast analysis and databases on a subscription basis to businesses, organizations, and government via membership. The additional consulting with Dr. Hammond has provided the City with solid, independent economic and statistical expertise used to develop a statistically valid forecasting model specifically for the City of Phoenix. The projected growth rates in each sales tax category for the 2026-27 estimate and subsequent years of the forecast are based on projections developed with the enhanced econometric forecasting model.

## Economic Assumptions

Several of the primary revenue categories are influenced by the economy, and the sources mentioned above provide valuable information on expected economic growth. These sources are used in developing projected revenue growth rates. B&R staff continuously monitor economic variables and what these experts are predicting when developing revenue estimations.

By the end of 2025, the U.S. economy displayed both resilience and underlying challenges. Real gross domestic product (GDP) increased at an annual rate of 4.4% in the third quarter of 2025, according to the updated estimate from the U.S. Bureau of Economic Analysis. The increase in real GDP reflected increases in consumer spending, exports, government spending, and investment. Still, the road in 2026 remains challenging. The Blue Chip Economic Indicators (BCEI) consensus projects that real GDP will grow at a slower pace, with 2.0% in 2026 and 2.1% in 2027. Forecasters anticipate continued consumer spending support, though at a slower pace. Persistent uncertainties – including tariff policy

shifts, escalating geopolitical tensions, elevated consumer debt, housing affordability constraints, labor market frictions, and inflationary pressures continue to weigh on confidence and investment decisions.

Arizona's future economic performance, along with that of Phoenix, will be closely tied to national and global trends. Arizona's economy continues to grow, though at a slower pace than usual. Job gains are modest due to reduced hiring and slightly higher layoffs. Arizona's nonfarm job growth has decelerated, shifting from roughly 1.2% in 2024 to 0.6% in 2025, according to the U.S. Bureau of Labor Statistics (BLS). Income levels are rising gradually, reflecting post-pandemic normalization in employment costs. For the 12-month period ending September 2025, wages and salaries for private industry workers increased 2.6% in the Phoenix Metropolitan Area, down from 3.4% in September 2024.

Despite these challenges, Arizona taxable retail sales, including remote sellers, increased by 4.3% in December 2025. The rebound in taxable retail sales demonstrates resilient consumer activity. However, December 2025 marked the fifth consecutive month with a year-over-year decline in State TPT contracting revenue, primarily due to weakness in the residential construction sector. After the COVID-19 pandemic, Arizona saw a surge in home and rent prices. Housing affordability has remained a primary challenge for the state. Housing permit activity statewide has been weak through the first eight months of 2025; seasonally adjusted total Arizona housing permits were down 13.1% compared to the same period last year (EBRC Benchmark).

### Revenue Forecasting Methods

Several forecasting methods and practices are used to estimate City revenues, and these vary by revenue type. Evaluating historical growth patterns and current actuals is an important component of analysis and provides insight into the direction of the various revenue categories and the growth needed to achieve estimated revenues. Information is also collected from the economic sources mentioned earlier to ensure the current and subsequent year's estimates are reasonable and in line with what these experts are predicting. The State FAC provides valuable information from a panel of respected economists and financial professionals. Included in their materials are projections of state sales tax and income tax collections. These projections are considered when developing city sales tax and state shared sales and income tax revenues for both the current and subsequent fiscal years. Additionally, information is collected from City departments during the annual technical review process to analyze the user fee and non-tax revenue category. The department's knowledge of the revenues generated by various City programs and services is essential to developing accurate projections. Staff also considers one-time revenues, adjustments, and contractual agreements impacting growth when developing estimates.

In conjunction with considering historical growth, current trends, and information from trusted sources and departments, B&R staff uses several forecasting methods when preparing the estimates. The most common methods of revenue estimation used are averages of actual revenue experience by varying periods, annualization of year-to-date actuals, and most often a percentage of prior year method. This last method involves analyzing the amount of revenue collected at a point in time during prior fiscal years, for example, the 7-month actuals represented a certain percentage of the total collections for the entire fiscal year and then applying it to current year-to-date actuals. This method accounts for the seasonal nature of many City revenues and is often a more effective method than using an average or annualizing approach. Additionally, the growth rate needed to reach the budgeted or estimated revenue is considered. If the percentage growth needed for the remaining months of the fiscal year is substantially higher or lower than the current growth rate, adjustments are made to arrive at a new estimated revenue amount for the fiscal year.

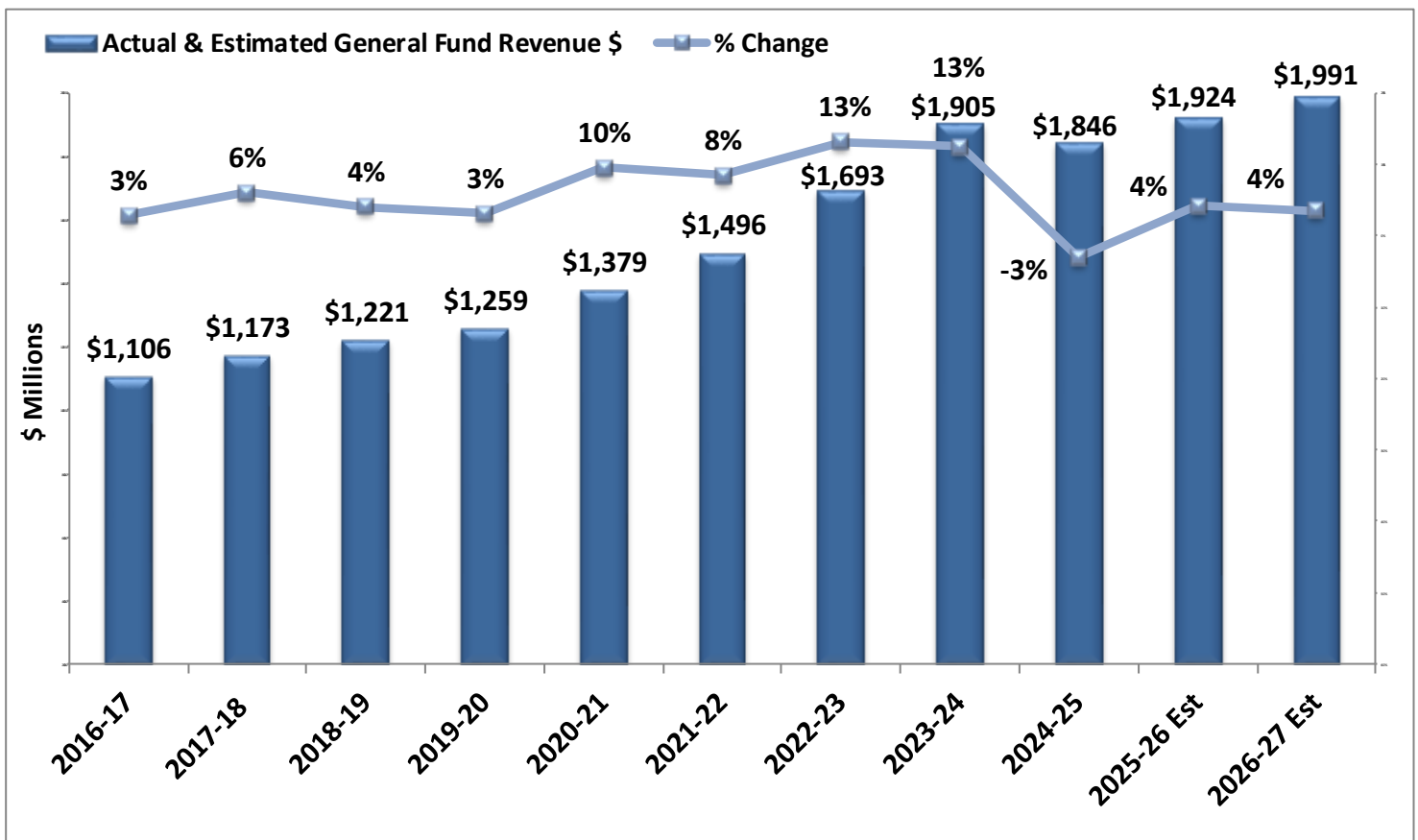
Once the current fiscal year estimate is developed, assumed growth rates are then applied to this amount to arrive at a projected revenue amount for the following fiscal year. These assumed growth rates take into account historical and recent revenue trends, one-time revenue adjustments, and information from City departments and our trusted sources to ensure projections are neither overly conservative nor aggressive.

Finally, as part of the annual budget development process each year, revenue estimates are presented to the City Manager’s Office, the City Council, and the community as part of the GF Multi-Year Forecast, the proposed Trial Budget, and the City Manager’s Budget recommended for consideration and approval prior to final budget adoption in June.

General Fund Revenue

To assist in explaining the basis for how GF revenue is estimated for each of the major categories, historical revenue growth and estimated revenues for the 2025-26 and 2026-27 are provided graphically, along with a description of the revenue category and the methodology used to develop recommended revenue estimates beginning with total GF revenue.

Total General Fund Revenue

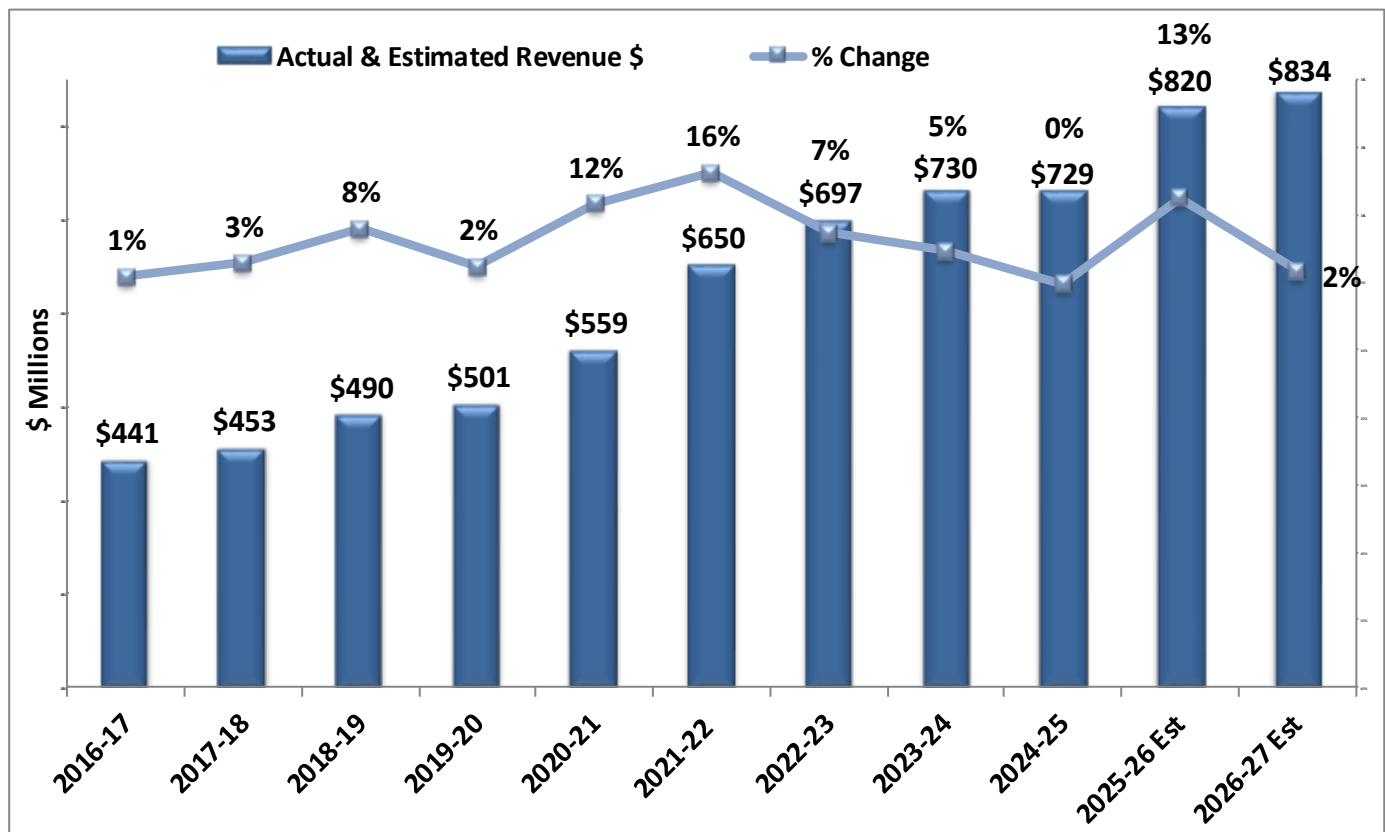


*\* Projections for 2025-26 and 2026-27 include the 0.5 percentage point increase in the City TPT and Use Tax rates, effective July 1, 2025. They also reflect the negative impact on state-shared revenues from the incorporation of San Tan Valley in 2025-26*

As mentioned, GF revenue consists of local taxes and related fees, primary property taxes, state shared sales, income and vehicle license taxes, user fees, and non-tax revenues. Estimating revenues for each category is conducted separately to predict the revenues for the current and

following fiscal year more accurately. Each category is unique with respect to the variables that comprise the revenue and influence growth. Variables that impact revenue growth include economic factors such as inflation, consumer sentiment, discretionary income, population, unemployment, job growth and construction activity. Other influencing factors may include legislative action, City Council policy directives, legal restrictions and mandates, state statutory formulas, program enhancements or reductions, and changes in rates and fees. For these reasons, evaluating each major category separately is preferred and generates more accurate revenue projections.

### Local Taxes and Related Fees, 41% of Total General Fund Revenue



Local taxes and related fees consist of city sales taxes, privilege license fees, and other excise taxes. The majority of revenue is derived from city sales taxes, which are comprised of 15 general categories collected based on a percentage of business income accruing in each category. The table on the following page provides the local sales tax rates by category and the percentage allocated to each fund. The table reflects the 0.5 percentage point increase in the TPT and Use Tax rates, raising them from 2.3% to 2.8%, effective July 1, 2025.

Privilege license fees are assessed to recover the costs associated with administering the local tax system. Other excise taxes include the jail tax and the excise tax collected on water service accounts, which provide resources to help offset jail costs paid to Maricopa County and other GF services.

Projections provided by the UofA were used to develop city sales tax estimates. Staff analyzes historical and recent trends in sales tax data by category, evaluates cumulative growth and uses an econometric forecasting model constructed by the UofA to develop projections. Estimates provided by the FAC and JLBC are also considered to ensure projections are reasonable and not overly aggressive or conservative in nature. Sales tax can be volatile and typically correlates to the local

economy and consumer spending behavior. Increases in sales tax collections are expected when the local economy expands, driven by underlying fundamentals such as population growth, increases in discretionary income, business expansion, job growth, and real estate growth. The opposite holds true during times of economic contraction or recession as evidenced in 2008-09 and 2009-10 during the Great Recession, and most recently during the COVID-19 pandemic. The federal stimulus assistance provided during the pandemic and more than expected revenue collections from retail and contracting sales taxes offset the revenue loss in the hospitality and leisure sales tax categories, which prevented a severe decline in City revenues. Additionally, the recent surge in inflation has positively impacted City revenues by drawing in greater tax revenue from higher-priced taxable goods and a rise in wages. However, the retail sector, the City's largest source of sales tax, has slowed since June 2022. In 2023-24, retail sales tax grew by 3.1%, the slowest rate since 2012-13, and in 2024-25, growth was even more modest at 1.1%. This slowdown, combined with recent legislative changes, has negatively impacted city sales tax revenue collections. The negative impacts include the State's elimination of the residential rental sales tax under Senate Bill (SB) 1131. Significant economic uncertainty and volatility in sales tax revenue collections in the first seven months of 2025-26 require a cautious approach to forecasting. Staff is closely monitoring revenue collections and may revise revenue estimates as more information becomes available.

Privilege license fees and other excise tax projections are developed using the existing fee structures, historical trends, averages, recent collection experience, and the percent of prior year method to account for seasonal influences on revenue activity. Privilege license fees and other excise taxes assume modest growth and continuation of current year-to-date experience.

### Local Sales Tax Rates by Category

	GF	N'hood Protection	2007 Public Safety Expansion	Public Safety Enhance.	Parks & Pres.	Transp. 2050***	Conv. Center	Sports Fac.	Capital Const.	Total
Advertising	–	–	–	–	–	–	0.5%	–	–	0.5%
Contracting****	0.9%	0.1%	0.2%	–	0.1%	0.9%	0.6%	–	–	2.8%
Job Printing****	0.9%	0.1%	0.2%	–	0.1%	0.9%	0.6%	–	–	2.8%
Publishing****	0.9%	0.1%	0.2%	–	0.1%	0.9%	0.6%	–	–	2.8%
Transportation/Towing****	0.9%	0.1%	0.2%	–	0.1%	0.9%	0.6%	–	–	2.8%
Restaurants/Bars****	0.9%	0.1%	0.2%	–	0.1%	0.9%	0.6%	–	–	2.8%
Leases/Rentals/ Personal Property****	1.5%	0.1%	0.2%	–	0.1%	0.9%	–	–	–	2.8%
Short-Term Motor Vehicle Rental****	1.5%	0.1%	0.2%	–	0.1%	0.9%	–	2.0%	–	4.8%
Commercial Rentals****	1.6%	0.1%	0.2%	–	0.1%	0.9%	–	–	–	2.9%
Lodging Rentals Under 30 Days****	1.5%	0.1%	0.2%	–	0.1%	0.9%	2.0%	1.0%	–	5.8%
Lodging Rentals 30 Days and Over*****	–	–	–	–	–	–	–	–	–	–
Retail (Level 1 – amounts = < \$14,338 for a single item) **** & *****	1.5%	0.1%	0.2%	–	0.1%	0.9%	–	–	–	2.8%
Retail (Level 2 – amounts > \$14,338 for a single item) ****	1.2%	0.1%	0.2%	–	0.1%	0.4%	–	–	–	2.0%

	GF	N'hood Protection	2007 Public Safety Expansion	Public Safety Enhance.	Parks & Pres.	Transp. 2050***	Conv. Center	Sports Fac.	Capital Const.	Total
Amusements*****	1.5%	0.1%	0.2%	–	0.1%	0.9%	–	–	–	2.8%
Utilities	2.7%*	–	–	2.0%**	–	–	–	–	–	4.7%
Telecommunications	2.7%	–	–	–	–	–	–	–	2.0%	4.7%

\*The General Fund portion of the utilities category includes the 2.7% franchise fee paid by utilities with a franchise agreement.

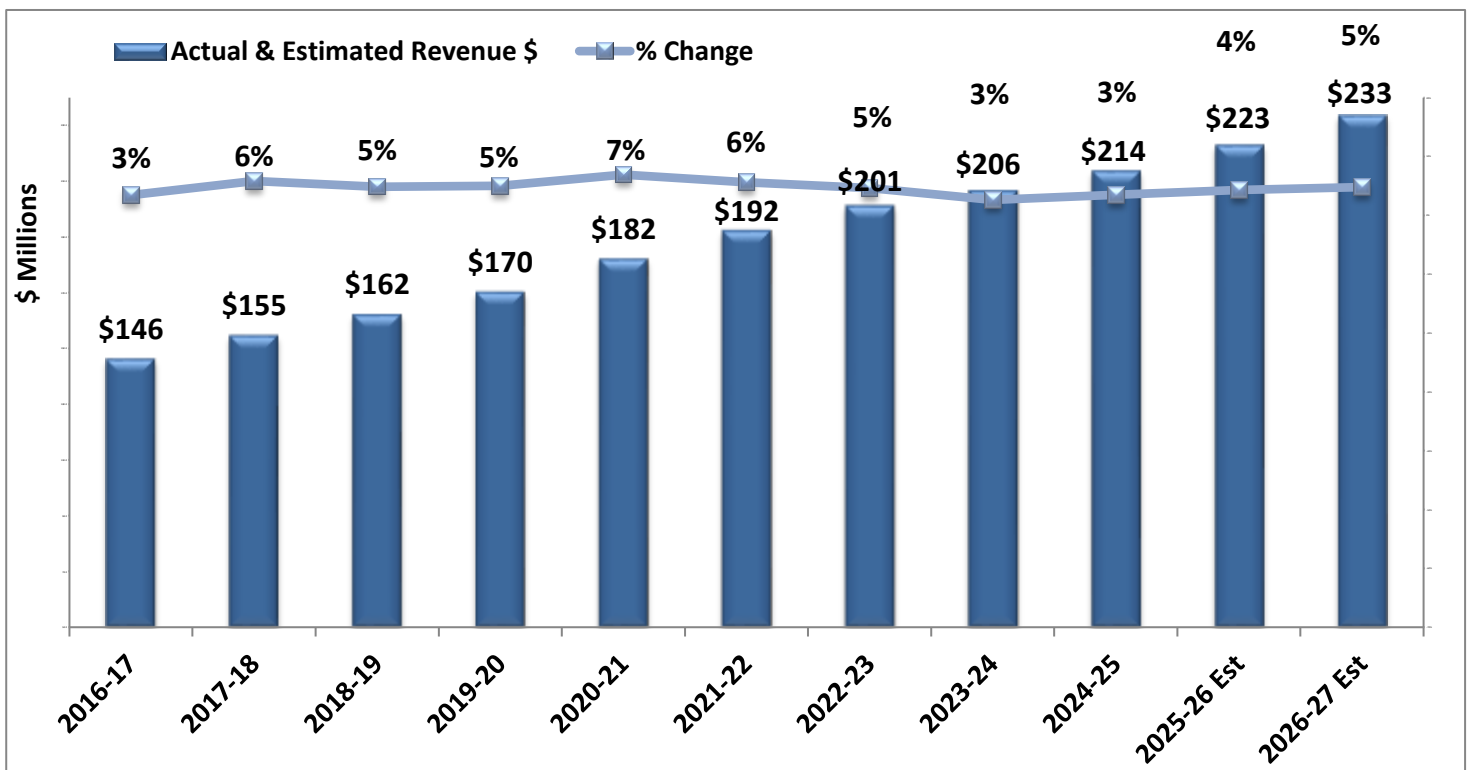
\*\*The Public Safety Enhancement designated 2.0% sales tax applies only to those utilities with a franchise agreement.

\*\*\*Proposition 104 also established a two-tier tax rate structure applicable to retail sales of single items in excess of \$10,000, to be adjusted biennially for inflation. Effective January 1, 2018, the first \$10,303 (Level 1) is subject to the 2.3% tax rate, while transactions over \$10,303 (Level 2) are subject to the 2.0% tax rate. The criteria for Level 1 and Level 2 were adjusted on January 1, 2026, and the current threshold is \$14,338, which will be adjusted again on January 1, 2028.

\*\*\*\*The tax rates reflect the 0.5 percentage point increase, from 2.3% to 2.8%, effective July 1, 2025. The rounded tax rates for each fund are provided for demonstration purposes, with the specific percentages used in the actual allocation.

\*\*\*\*\*SB 1131 prohibits municipalities from taxing residential rental property starting January 1, 2025.

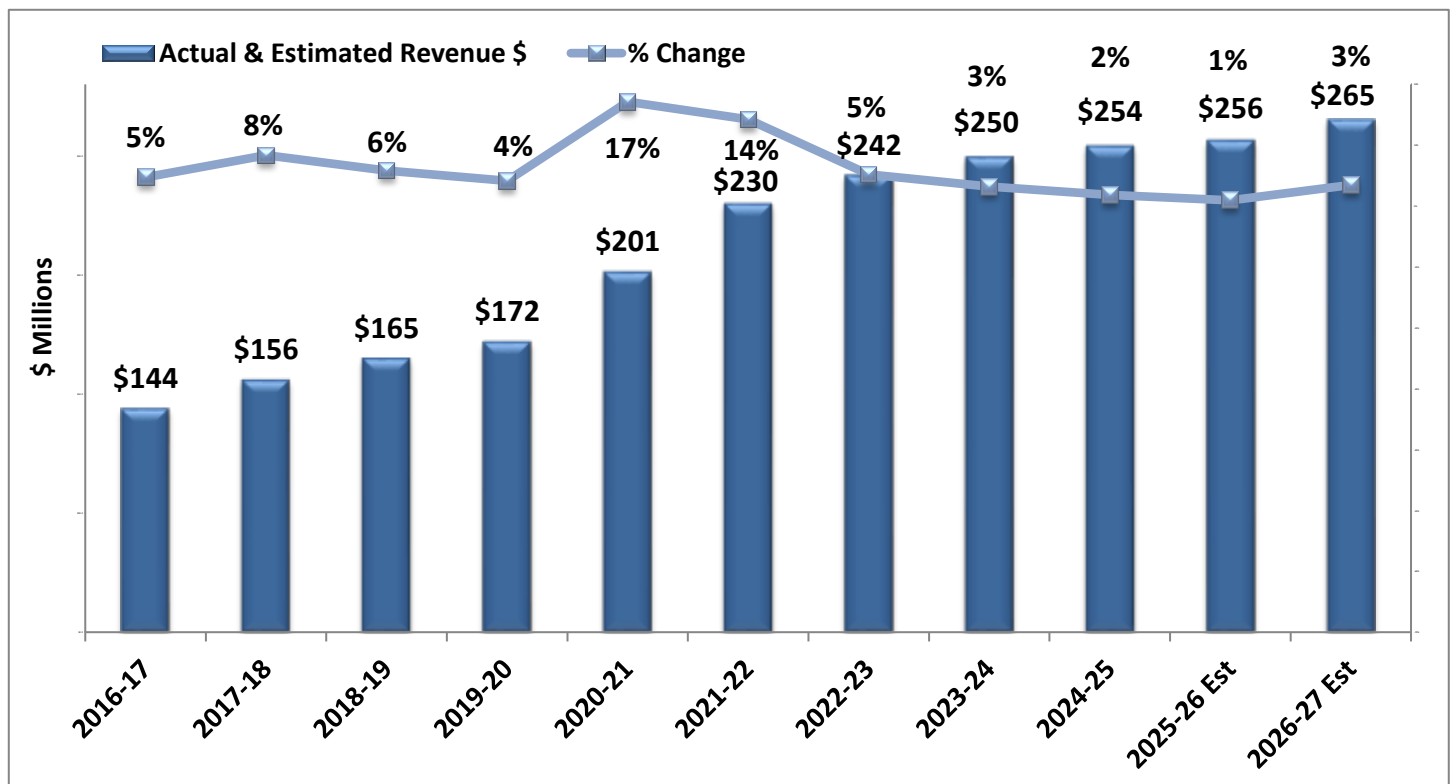
### Primary Property Tax, 12% of Total General Fund Revenue



Arizona property tax law provides two separate tax systems. A primary property tax is levied to pay current operations and maintenance expenses. Therefore, primary property tax revenue is budgeted and accounted for in the GF (and is illustrated in the above graph). A secondary property tax levy is restricted to the payment of debt service on voter-approved long-term general obligation debt. Therefore, the secondary property tax revenue is budgeted and accounted for as a special revenue fund. The primary property tax levy forecast reflected here is based on the net assessed

value stated in the annual “Levy Limit Worksheet” for the City of Phoenix, issued by the Maricopa County Assessor, multiplied by the projected primary property tax rate. The primary property tax revenue forecast assumes that 99% of the projected primary property tax levy is actually collected. The annual amount of the primary property tax levy is limited by the Arizona Constitution to a two percent increase over the prior year levy limit plus an estimated levy for previously unassessed property (primarily new construction). Provisions in Chapter XVIII of the City Charter limit the City’s primary property tax rate to \$1.00 per \$100 of assessed valuation with the exception of costs to operate library services. The proposed 2026-27 primary property tax rate, not including the portion of the rate allocated to cover the Library Department operating costs, is \$1.00 per \$100 of assessed valuation. The proposed primary property tax rate for 2026-27 of \$1.2652 is lower than the 2025-26 primary property tax rate of \$1.2658 and is equal to the rate allowable under the state constitution, which limits the primary property tax to an amount 2% greater than the prior-year limit on previously taxed properties. The primary property tax revenue estimate for 2026-27 is \$233.4M, which is \$10.7M, or 4.8%, more than the 2025-26 revenue estimate of \$222.7M due to increased taxable net assessed valuation (property values) and new construction.

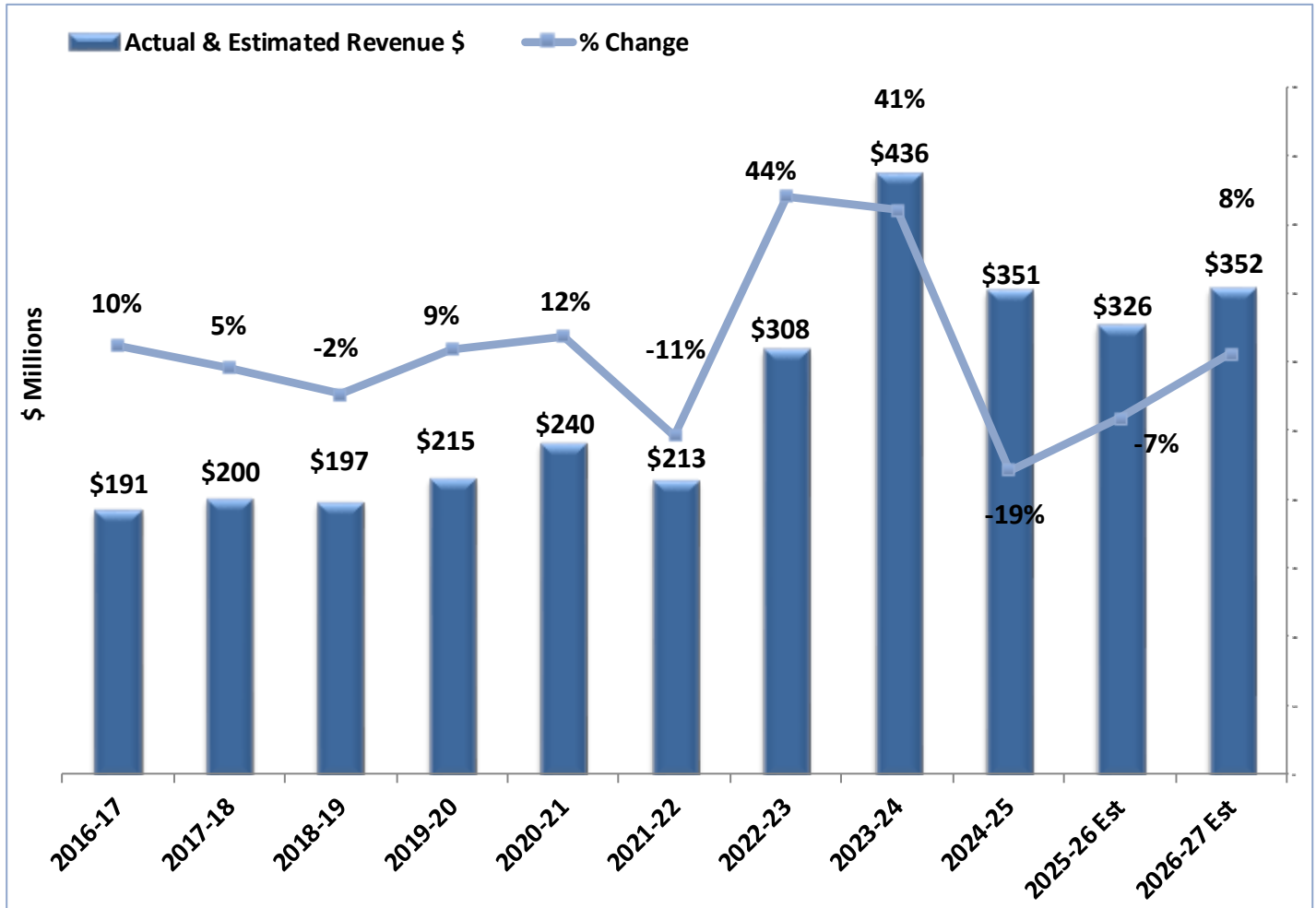
State Shared Sales Tax, 13% of Total General Fund Revenue



State sales tax revenues received by the City are governed by Arizona State Statute §42-5029. State sales tax revenues are split between a “distribution base”, of which Phoenix receives a share, and a “combined non-shared” category, which is allocated entirely to the state. With the exception of some tax categories, the distribution base consists of either 20, 32, 40, or 50 percent of collections, depending on the tax category. State statute §42-5029 stipulates that, of the monies designated in the distribution base, the Arizona Department of Revenue shall pay 25% to incorporated cities on the basis of relative population percentages. The population share changes annually based on Census Bureau Population Estimates. For 2026-27, the City of Phoenix population share is projected to be 27.07%, based on the 2024 Census Bureau Population Estimates. This estimated share also reflects the reduced share resulting from the incorporation of San Tan Valley in 2025-26.

State sales tax is estimated to be similar to the city sales tax forecast. Staff analyzes historical and recent trends in sales tax data by category and evaluates cumulative growth when developing revised estimates. Projections provided by the UofA EBRC, using an econometric sales tax model, were used to develop 2026-27 estimates, and information from the FAC and JLBC was considered to ensure current fiscal year estimates are reasonable and in line with what these experts are projecting.

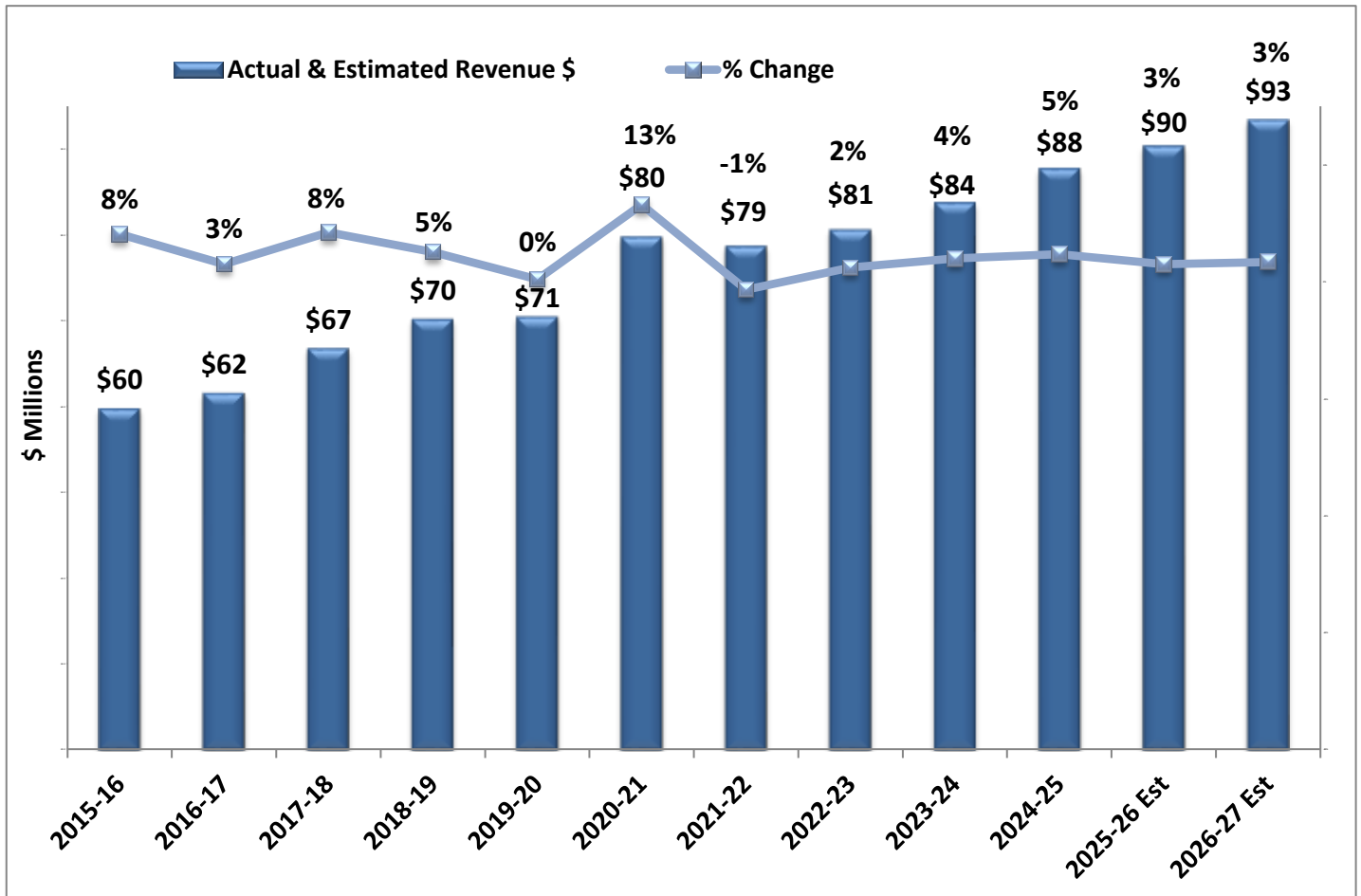
State Shared Income Tax, 18% of Total General Fund Revenue



State shared income tax revenue, also known as the Urban Revenue Sharing (URS) Fund, was established by voter initiative in 1972 and is governed by Arizona Revised Statute §43-206. The statute stipulates that 15% of the net proceeds of state individual and corporate income tax collected two years preceding the current fiscal year be distributed to incorporated cities and towns. Laws 2021, Chapter 412 (Tax Omnibus) increased the Urban Revenue Sharing distribution from 15% to 18% starting in 2023-24. Individual cities receive their portion based on the cities' share of the state population. The 2026-27 City of Phoenix population share is estimated at 27.03% and is based on the 2024 Census Bureau Population Estimate. This rate will change annually based on Census Bureau Population Estimates. As a result of the initiative, Arizona Revised Statute §43-201 stipulates that the area of income taxation is preempted by the state, and a county, city, town, or other political subdivision shall not levy income tax as long as the Urban Revenue Sharing Fund is maintained as provided in state statute §43-206. The estimated share of 27.03% also reflects the reduced share resulting from San Tan Valley's incorporation in 2025-26.

Since state shared income tax revenue is based on actual collections from two years preceding the current fiscal year, the 2025-26 and 2026-27 projected revenue is known and is based on actual collections received in 2023-24 and 2024-25, respectively. The declines of (19.4) % in 2024-25 and (7.0) % in 2025-26 are primarily due to significantly lower state shared income tax collections following the State's implementation of a flat individual income tax. Senate Bill 1828 reduced individual income tax rates beginning in tax year 2022 to the current flat tax rate of 2.5%. The projected 7.9% growth in 2026-27 reflects anticipated capital gains growth in tax year 2024 and continued strong wage growth.

State Shared Vehicle License Tax, 5% of Total General Fund Revenue

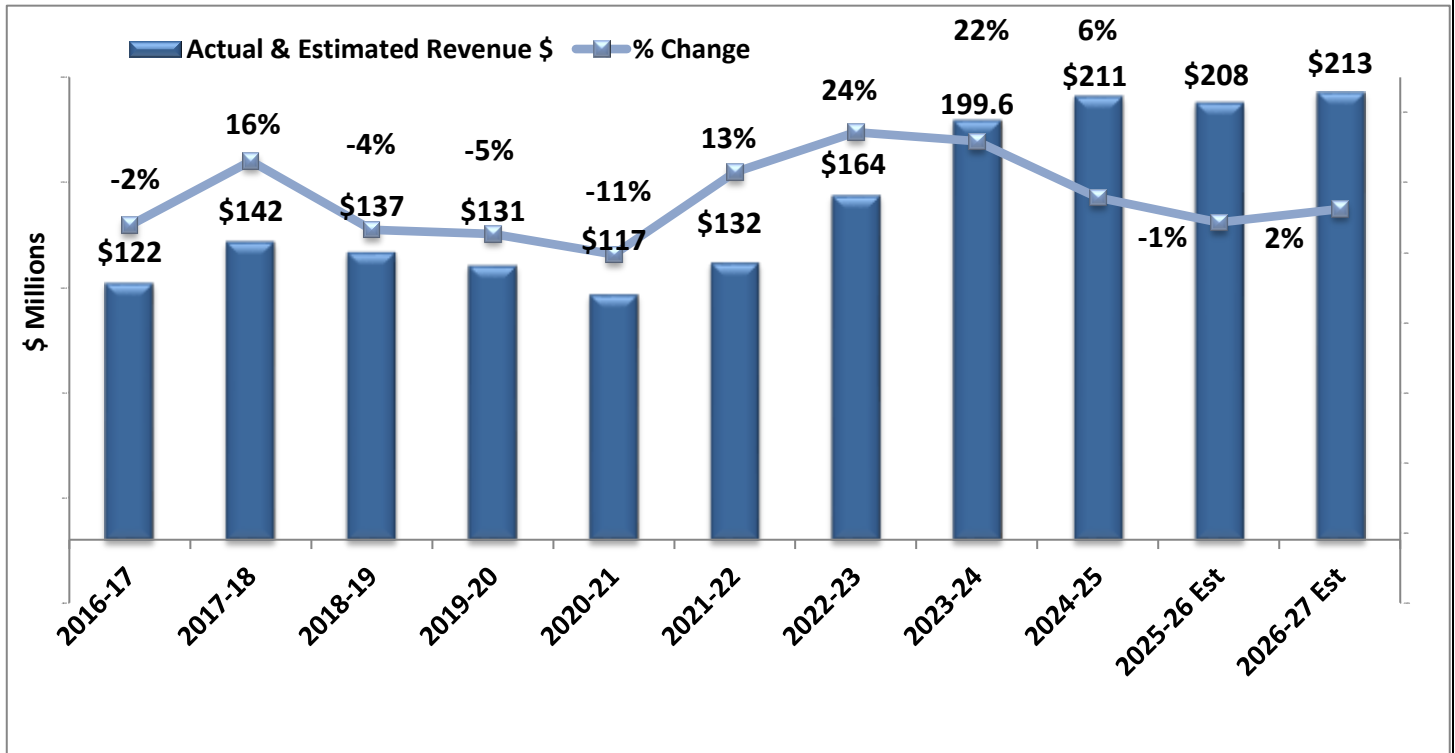


State shared vehicle license tax has been distributed to cities and towns since 1941. The tax is levied per \$100 of a vehicle's assessed value. For the first 12 months of the vehicle's life, the assessed value is 60% of the manufacturer's base retail price. For each subsequent year, the assessed value is 16.25% less than the previous year. The rate per \$100 of assessed value is \$2.80 for new vehicles and \$2.89 for renewals. The Arizona Department of Transportation (ADOT) collects and distributes the tax according to Arizona Revised Statute §28-5808. The distribution to individual cities is based on their relative population within the county. The City of Phoenix population share for 2026-27 is estimated at 38.03%, based on the 2024 Census Bureau Population Estimate. This percentage will be updated annually as new Census Bureau Population Estimates are released.

Vehicle License Tax (VLT) revenues are often correlated to the overall strength of the economy. Similar to sales tax revenues, this revenue category tends to grow during economic expansion, as illustrated in the graph above. Revenues are estimated by evaluating historical growth patterns, year-to-date cumulative growth, and applying the percentage of prior year method to year-to-date actuals,

which accounts for the seasonality in collections. Staff also consider projections provided by ADOT, which are published annually for this revenue source, and any available recent economic information pertaining to projections on the local economy and vehicle sales when formulating recommended current and subsequent year estimates. The projected growth rate for 2026-27 is 3.3%, assuming moderate growth based on the ADOT forecast from September 2025.

User Fees and Non-Tax Revenues, 11% of Total General Fund Revenue



User Fees and Non-Tax Revenues include collections from licenses and permits, fines and forfeitures, cable television fees, and user fees from several City departments designed to recover the costs of providing specific City services, including Parks and Recreation, Library, Planning, Police, Fire, and Streets. They also include other revenue sources, such as interest income, parking meter revenue, in-lieu property taxes, sales of surplus property, various rental income, parking garage revenues and concessions, and miscellaneous service charges in Finance, Housing, Human Services and Neighborhood Services.

B&R staff relies on departments to provide essential information concerning activity levels, fee increases or decreases, and program changes that impact the variety of revenue sources in this category. Technical revenue reviews are conducted twice each fiscal year as part of the annual budget development process. Departments are asked to provide revenue estimates and the reasons for any changes from prior-year actuals. Staff conducts a line-item analysis of all revenues and uses various methods, including annualization and percentage of prior year, as well as consideration of one-time and contractual revenues, program enhancements or reductions, and other adjustments when developing estimates.

The projected 2.4% growth in 2026-27 was driven primarily by the fee increase for hazardous materials inspections and moderate growth in emergency transportation services, partially offset by declines in interest earnings and cable communications revenue.

In addition to the technical reviews conducted twice each fiscal year, B&R staff monitors revenues monthly to determine if adjustments to projections are needed. The proposed estimates are then reviewed by B&R management and the City Manager and finally incorporated into the GF proposed revenue projections for consideration by the City Council and the community.

This report is for informational purposes only and is intended to provide the City Council and the community with explanations on how GF revenues are analyzed and developed to better facilitate discussions during the annual budget development process.

*Yung Pham*

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Principal Budget and Research Analyst